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SUBJECT: MOROCCO IMPROVES ITS ECONOMIC RANKINGS, BUT STILL
HAS FAR TO GO

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1. (SBU) Summary: After years of lagging behind in world economic rankings such as the World Bank's "Doing Business Index" and the Heritage Foundation's "Economic Freedom Index," Morocco is starting to show signs of improvement. The most recent iterations of these reports show Morocco moving up two places in the World Bank's Ease of Doing Business rankings (from 130 in 2009 to 128 in 2010) and jumping ten places in the Heritage Foundation's Index of Economic Freedom (101 in 2009 to 91 in 2010). The Moroccan Government, through the local media, has sought to portray these gains as the result of King Mohammed VI's economic policies and reform. While the progress is welcome, the indices also show that Morocco still has far to go, particularly in improving the business climate -- in which the indices show it continues to lag behind most of its neighbors in the Middle East and North Africa region. End Summary.

The Effects of Economic Reforms

2. (SBU) In the decade since King Mohammed VI ascended the throne, the Government of Morocco has undertaken economic policies and reforms aimed at stimulating growth. In fact, Morocco has managed to achieve sustained real GDP growth, which despite the world economic crisis, topped 5 percent in both 2008 and 2009 and is projected to remain above 4 percent in 2010. Dependence on the volatile agriculture sector has diminished as its share of the GDP has fallen from 20 percent in 1998 to about 16 percent in 2010. National strategies for industrial production, tourism development, outsourcing, green-energy production, agricultural development and shipping, among others, have been put in place to position the country better in the global economy. Morocco has also sought to strengthen and modernize its public finance system and support its private sector (reftel).

3. (SBU) Despite these encouraging signs, the multi-year strategies and reforms put in place have not had much effect on Morocco's rankings compared to similar and regional economies in commonly watched international indices, such as the World Bank's "Doing Business Index" and the Heritage Foundation's "Economic Freedom Index." Still, both indices have identified significant progress in recent years on economic reforms as a decisive factor in maintaining Morocco's relatively high growth rates. The World Bank's research shows that the linkage between its index and the

potential for economic growth is strong. Higher rankings indicate better (and usually simpler) regulations for business and stronger protection for property rights, based on ten indicators of business regulation that track the time and cost to meet government requirements in business start-ups, operations, trade, taxation and business closures.

(They do not reflect macroeconomic policy, quality of infrastructure, currency volatility, investor perception or crime rates.) The Index of Economic Freedom similarly uses a series of ten economic measurements (including trade, business and investment freedom and property rights) to measure the degree of economic freedom in the world's institutions. The higher the ranking in the economic freedom index, the freer individuals are to work, produce, consume and invest in any way they chose, notes the Heritage Foundation in its report. Both the "Doing Business" and "Economic Freedom" Indices compared 183 countries in 2010.

Economic Rankings on the Rise

¶4. (U) Local press reporting on the "Doing Business 2010" report emphasized the finding that Morocco is among the most active countries in instituting economic reforms to facilitate commercial transactions and improve the business climate. In 2010, Morocco improved its global ranking by two places in the ease of doing business index, while maintaining its rank of 13th in the Middle East and North Africa (MENA) region. The improvement is primarily attributable to Morocco moving up 44 places in the "getting credit" indicator and 4 places in "enforcing contracts." It saw no change in "employing workers" or "closing a business." Morocco

substantially improved the information system related to bank credits and was among 27 out of 183 countries to introduce reforms to make obtaining bank credits easier.

Morocco's Recent "Doing Business" Rankings:

Year	Rank	MENA Rank
2007	115/175	10/17
2008	129/178	13/19
2009	130/181	13/19
2010	128/183	13/19

¶5. (U) Morocco's economic performance has been steady in recent years, stressed local news reports on the Heritage Foundation's "2010 Economic Freedom" index, sustained by reform measures focused on competitiveness and diversification of the production base. Major structural reforms have aimed at ensuring macroeconomic and financial stability and improving the overall entrepreneurship environment, according to the Heritage Foundation. Morocco's economic freedom score is now 59.2 out of 100, making it the 91st freest in the 2010 index, moving up 10 places from 2009.

It ranked 10th in the MENA region, moving up two places from the last two years. The positive change in score reflects an improvement in five out of the ten economic freedoms. Morocco's economy benefits from relatively high levels of business freedom, monetary freedom and investment freedom, indicates the 2010 "Economic Freedom" report. Foreign and domestic investments receive equal treatment, the report continues, while the small but growing financial sector is well-developed for the region. Simplifying the tax regime and improving the transparency of fiscal management have been major parts of the government's reform agenda, the report concludes.

Morocco's Recent "Economic Freedom" Rankings:

Year	Rank	MENA Rank
2007	96/157	11/17
2008	98/157	12/17
2009	101/183	12/17
2010	91/183	10/17

Evidence of Succeeding Reforms?

¶6. (U) While the overall rise in these rankings reflects the positive effects of reforms and will help spur economic growth, much remains to be done, both reports stress. Morocco continues to score low in some major indicators in both indices, which has held back Morocco's advance in the rankings over last the four years. For example, in the ease of doing business rankings, Morocco received more bad news than good, improving in only two of the ten indicators from the previous year. Furthermore, in 2010 Morocco dropped 17 places in "starting a business," 7 in "construction permits," 6 in "paying taxes," 5 in "registering property," 4 in "trading across borders" and 1 in "protecting investors." Morocco also received low ratings from the Heritage Foundation for certain important economic freedoms, particularly in "labor freedom," "property rights" and "freedom from corruption." The judiciary is inefficient and vulnerable to political interference, states the "Economic Freedom" report, and labor market rigidity continues to discourage dynamic employment growth.

¶7. (SBU) Comment: The reform camp within the Government kept the local economic press well-supplied with recent good-news stories about Morocco's improvement in the widely watched indices, which had previously been the source of many critical media pieces. This can only help as the modernizers continue to push for economic liberalization to spur continued growth. In the past, the Government has often reacted by criticizing the methodology of the indices and questioning the validity of the results. In private talks with government interlocutors, we have emphasized that whatever merit the government's arguments may have concerning the fairness of the ratings system, the fact remains that the problems these indices have captured are real ones that Morocco needs to work on. No doubt the rise in economic rankings for 2010 is a step in the right direction, and a sign that the government's economic reform program has begun

to take effect. It is also a sign that the Free Trade Agreement, USAID, the Millennium Challenge Corporation and other mission efforts to improve the business climate are having an impact. However, much remains to be done, particularly in terms of improving the business climate -- as exemplified by the low rankings in indicators related to labor, commercial property rights and investor protection. There is still significant space for improving and simplifying business regulation, which would help consolidate the dynamism of the economy. The Mission will advocate a redoubling of efforts to address Morocco's weaknesses, especially in the investment climate, and will seek discreetly to strengthen the hand of economic reformers within the Government, who continue to face foot-dragging and second-guessing by some entrenched interests. End Comment.

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